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Get more in hand, but PF kitty to shrink for 3 months

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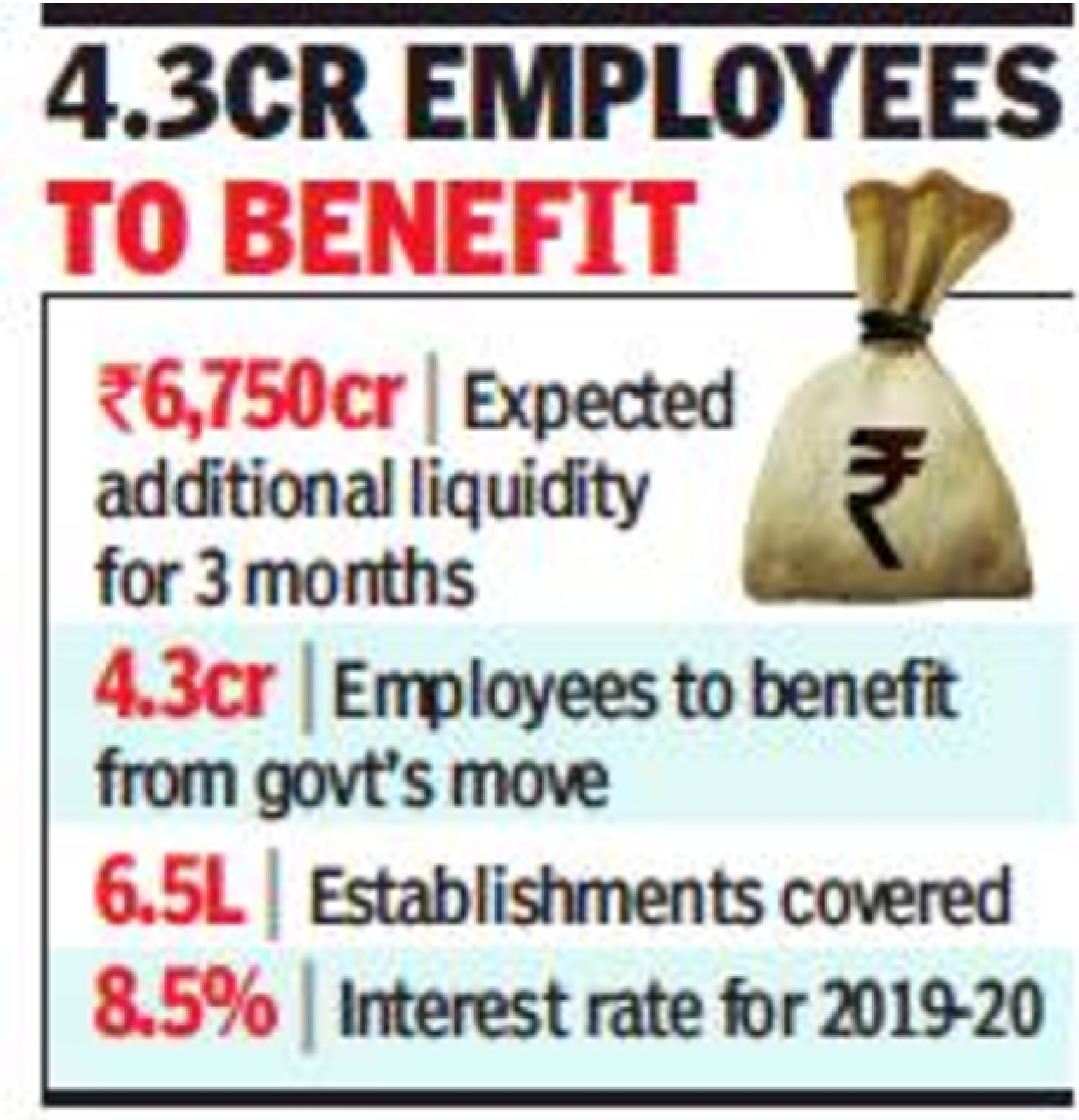
MUMBAI: Take-home salaries of employees would increase with the government's move to reduce the statutory employee provident fund (PF) contribution from 12% to 10% for three months. However, this would come at the cost of a reduction in the individual's PF account, which is widely considered as a social security benefit.

The move would also provide relief to employers at a time when liquidity is a constraint. However, that would depend on how salaries have been structured by an organisation. If the PF contribution is part of cost to company (CTC) of an employee's salary, the employer may have to pass on the benefit to the employee.



According to the standard structure, if the basic salary of an employee is Rs 100, 12% or Rs 12 gets deducted as PF. An equivalent amount is contributed by the employer into the employee's PF account, taking the total monthly contribution to Rs

24.

With the government reducing the PF contribution to 10% — both for the employee as well as the employer — the amount that would accumulate as PF every month in an employee's account would be Rs 20. In case the salary is structured such that the employer's contribution is over and above the CTC, then the employer may also benefit from the move.

Motilal Oswal Financial Services executive director & head (HR) Sudhir Dhar said, "Our employees' take-home salary will increase. However, the employees may have to bear the tax on that amount, although it won't be much."

Nishith Desai Associates head HR laws (employment & labour) Vikram Shroff said, "We will await the specific notification to determine if the 2% of the employer's monthly PF contribution can be retained or whether it needs to be passed on to employees as additional compensation. Legally, it would also depend on the terms of individual employment contract along with the employee's CTC structure, which will need to be reviewed for making such determination."

For organisations with a larger base of employees, and contributing to PF over and above CTC, this could result in a greater relief. When asked to quantify the difference the measure would make on businesses, Aditya Birla Group head (HR) Santrupt Misra said, "It is not a question of a large or small impact from individual items. One has to look at the potential collective impact. The objective is to put more money back in the hands of people to stimulate economic activity including demand. I am sure the PF contribution rate cut would be a contributor in the process. At this point, any support for the right reasons should be welcome."

Cyril Amarchand Mangaldas partner Rashmi Pradeep said, "The decision will reduce the burden on employers and put more money in the hands of the employees, at least for the next 3 months."